Accurate data is the key to a viable insurance sector

By Gary Allemann

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For insurers to remain competitive and viable, they require accurate data to move their business forward into the digital age.

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Data has always played an important role when making informed decisions in the insurance industry. In the past, data was gathered through face-to-face interactions with clients. Brokers and insurers shaped their understanding of customer risk profiles based on a personal relationship. As the direct insurance market boomed, which pushed price and cost pressures up, the luxury of face time with clients became something that insurers and their intermediaries could no longer afford. This highlighted a clear need for critical risk-related insight, which can only be fulfilled by having clear, accurate customer data.

The challenges

Inaccurate data emanates from multiple sources that have varying levels of quality. This data could be captured by an insurance broker or call centre agent for example. Previously, the risk that resulted from inaccurate data was usually factored into risk calculations. However, even though accurate premium setting is important, it's only a small part of a bigger picture.

Further impacting an insurers ability to house "clean" data is the fact that many of these insurance houses still make use of siloed legacy systems where data is often inaccurate, incomplete and difficult to share. This, coupled with unreliable sources has led to an inability to accurately understand the customers total value and risk value, creating inefficacies and increasing risk. Data governance is key to combating data management problems.

Accountability for the proper handling, security and storing of data is also increasingly critical to the modern business. Data governance provides this foundation of accountability and allows the business to prioritise the management of tits data better. The properly governed organisation will find compliance with emerging legislation such as PoPI and Fica to be far simpler as the foundations for compliance will already be in place. Making companies aware of the parameters on how to collect data, what its intended purpose is, when it may be used or must be destroyed and why it is relevant, results in more accountability, ensuring data quality is maintained, the data purpose is specified, and security safeguards are in place.

Searching for a solution

Through the setting of policy premiums, insurers will be able to more accurately assess their risk and price their premiums at a more competitive rate. Therefore, by accurately understanding the requirements of customers, insurance companies can better market to them. This enables insurers to build products and services that have the potential to be more profitable since they are more relevant to consumer needs.

Data governance looks at how the insurer interacts with data, and examines how data needs to change in order to compete in a digitally-driven economy. The insurance company can then question whether they have the quality of data it needs and look at how technology can improve existing data, instead of starting from scratch. It will also be necessary to consider whether the insurer understands the rules that affect the data it holds, which will necessitate policy creation to factor in legislation like PoPI. Insurers should then question where their data resides and who has access to sensitive information – all questions that can be supported by data technology solutions.

Hence moving the business towards data governance and stewardship platforms will necessitate the implementation of data quality tools and establish a core of useful data. Once the core is in place, it possible to look at analytics abilities and new ways of using the data they hold.

The competitive and profitability pressures increasingly felt by the insurance industry have pushed it to seek data solutions that help price risk assets with greater certainty and understand client risk profiles more accurately - all of which will have a positive effect throughout the insurance value chain, if implemented correctly.

The insurance industry should start working to elevate itself from the effects of historical siloed approaches where data is captured and stored in multiple products and systems. Getting back to basics, by identifying which data is necessary for the organisation, and which help insurers understand their customers.

Data governance is an important discipline to enable this. By using data analytics and subsequent tools made available by data management companies, the insurance industry will no longer have to struggle with inefficiencies and customers will not absorb the costs created by inaccuracy. Data solutions can now help price 'risk assets' more accurately and help understand the clients' risk profiles. However, to build foundation, businesses need to start collaborating and sharing data. Only then will South Africa's insurance industry reach its full potential.

ABOUT THE AUTHOR

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